

# Business in Brief

issued bi-monthly by the Economic Research Department

## THE CHASE MANHATTAN BANK

18 Pine Street, New York 15, N. Y.



General business activity moved ahead in the second quarter despite a sharp cut-back in the rate of inventory buying. Demand in other areas more than offset a reduction of \$5½ billion in the rate of inventory accumulation. Final purchases — i.e. gross national product minus the inventory factor — rose 2% over the first quarter and stood 5% above a year earlier.

Now that the major impact of the decline in the rate of inventory building has been absorbed, the question is: what forces could make for an advance in business activity?

¶ **Business investment** in new plant and equipment is scheduled to increase moderately — perhaps as much as \$2-\$3 billion in a year.

¶ **Housing** seems poised for another upward move. With mortgage credit more readily available, housing starts might show a gain of 10-15% (\$2-\$3 billion) if prospective home-buyers are attracted by the products the industry offers.

¶ **Government expenditures** may rise \$3-4 billion in the year ahead. Most of the increase is slated to come at the state and local level, in part because of a pick-up in highway building. However, some increase in Federal defense spending is in prospect.

Consequently, it is possible that increases in these sectors of the economy could outweigh any further decline in the rate of inventory accumulation, thus providing some positive stimulus.

The question then would be whether consumer buying would continue to support an increase in overall business activity. In the past four years, consumer expenditures have accounted for 64-66% of GNP. In this period, which begins and ends in reasonably comparable stages of the business cycle:

¶ **Total consumer expenditures** have increased an average of 5.1% per annum in dollars unadjusted for price changes and 3.0% a year in constant dollars.

¶ **Nondurables and services**, which make up 85% of the total, have shown a remarkably steady upward trend related to population growth and the advance in real incomes. The average annual rate of growth works out to 5.3% in current dollars and 3.1% in constant dollars.

¶ **Durable goods** purchases are affected by such factors as the level of income, the state of consumer confidence, the appeal of new auto models (autos account for over 40% of consumer durables) and the trends in consumer credit. Durables expenditures have increased at a rate of 3.7% in current dollars and 2.0% in constant dollars over the past four years as a whole.

These trends in consumption reveal an important characteristic of the U.S. economy. Consumer expenditures have displayed notable stability in recent years. The only sizable variations from year to year have occurred in autos which have accounted for between 4.5% and 6.1% of total consumer purchases.

The stability in consumption depends, of course, on reasonable stability in income. However, the two sides of the equation are to a considerable degree interrelated.

- Less than 20% of total wage and salary payments go to those employed in manufacturing durable goods of all sorts. This is the sector of the economy in which the major part of the fluctuations in production, employment and incomes take place.

- Almost half of all wages and salaries are earned in production of other commodities and in the distribution process. Incomes here tend to rise in line with the long-term rate of growth of population and living standards.

- The remaining third of wages and salaries come about equally from the service trades and government. Government wages and salaries have been increasing a steady 6% per annum in recent years, while earnings in the services have shown a 7% per annum growth — reflecting in part the steady expansion in these areas of activity.

If, then, the more volatile areas of the economy — business investment, housing, consumer durables and government — should move ahead on balance, consumers would have the income to support an upward trend in their purchases. There is nothing automatic about this process — it depends on hard and imaginative work on the part of producers of both goods and services. Yet these trends in consumption and income show how the economy can move ahead in the face of ups and downs in the production of durable goods.

# THE MONEY MARKET AND THE FLOW OF SAVINGS

The money markets have eased appreciably over recent months. Thus far, however, the effects have been far from uniform. The Treasury, for instance, is now able to raise short-term funds at rates 2% below levels prevailing six months ago, and corporations have also found costs of financing in the open market sharply reduced. At the same time, rates for mortgages have eased only slightly, and commercial banks have relaxed their lending policies little, if at all.

These differences reflect several factors — including the fact that the easing effects of Treasury debt retirement over the past six months have naturally been felt most promptly in the market sector directly affected. But part of the responsibility also lies with the millions of decisions by individuals and businesses that together determine the pattern of savings flows.

## Increased Emphasis on "Direct" Investment

In the aggregate, personal saving has been remarkably steady over recent years — running between \$23 and \$24 billion. But the stability of the total has disguised a dramatic shift in its composition.

- Attracted by rising yields, individuals put a record \$12.1 billion in marketable government securities — Federal, state, and local — in 1959. That is three times the total for any previous peacetime year. Recent data suggest that buying continued at a rapid pace in early 1960 — even after yields turned lower.
- Meanwhile, growth in savings deposits was sharply curtailed. Over the first half of 1960, savings deposits rose by \$1.7 billion — the smallest growth in 9 years.

Thus, the diversion of personal saving into "direct" investment has sharply limited the growth in bank deposits at a time of strong demands for private credit —

including those of individuals themselves seeking mortgage and instalment loans. Under the circumstances, commercial and savings banks have liquidated roughly \$13 billion Treasury securities since the end of 1958 to meet these needs. The result is that liquidity ratios have approached the point where only new deposit growth (or a reduction in reserve requirements) can provide a substantial base for further loan expansion.

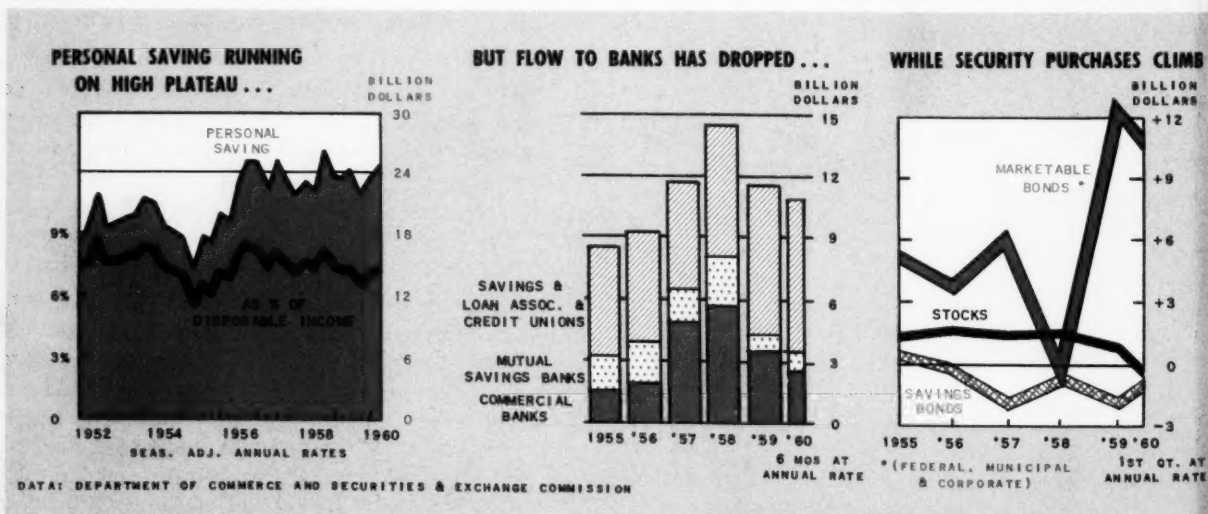
In contrast to individuals, businesses have stepped up their saving in the form of retained earnings over the past two years. Many businesses have, nevertheless, had to turn to banks to accommodate their working capital needs. Meanwhile, corporations with surplus funds, like individuals, have tended to funnel them largely into the short-term securities market, and have often been willing to draw down their deposit balances in the process.

## The Competition for Funds

In free credit markets, savers will seek out the highest return, consistent with requirements of safety and liquidity, and borrowers the cheapest source of funds. In the process, no segment of the market can indefinitely remain insulated from another.

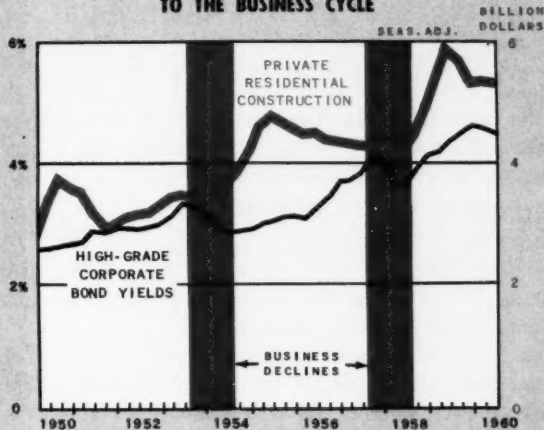
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These adjustments are never instantaneous. But should the trend toward easier money persist, further moves in those directions might be expected to equalize the pressures in various segments of the market once again.

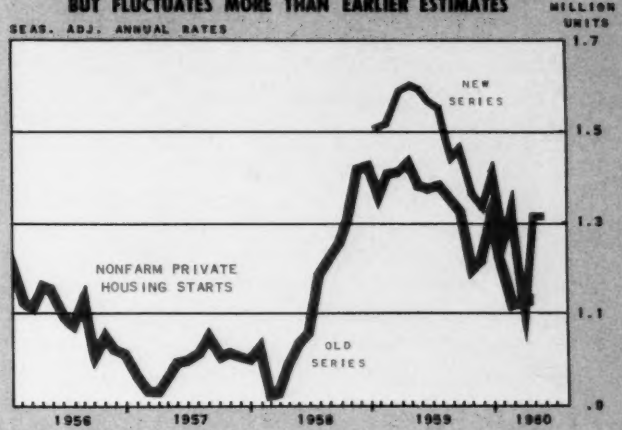


# A DECADE OF HOUSING

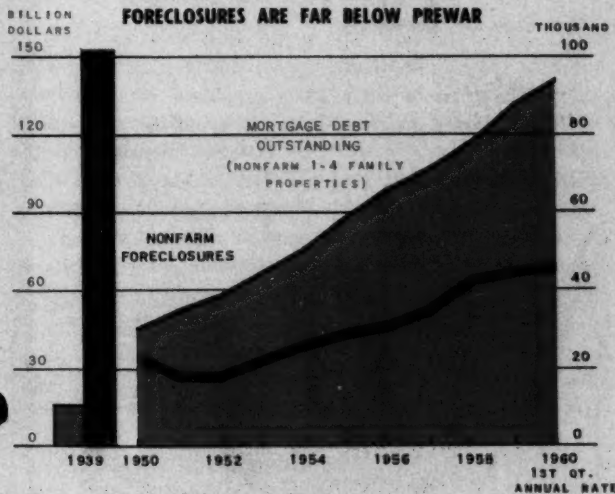
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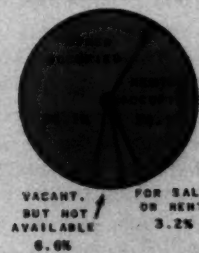
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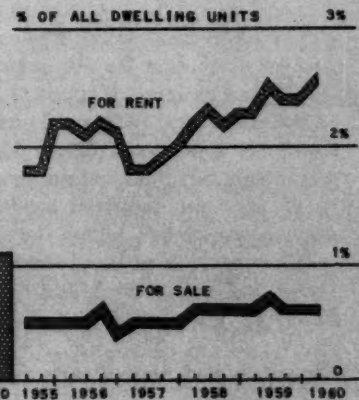
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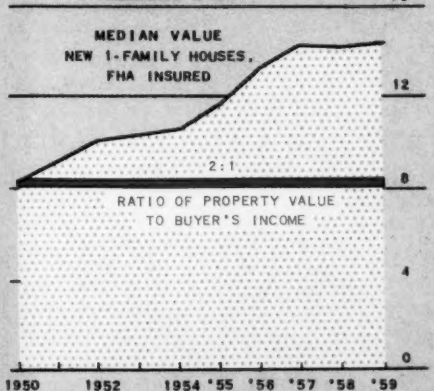
**TOTAL DWELLING UNITS 1ST QUARTER 1960**



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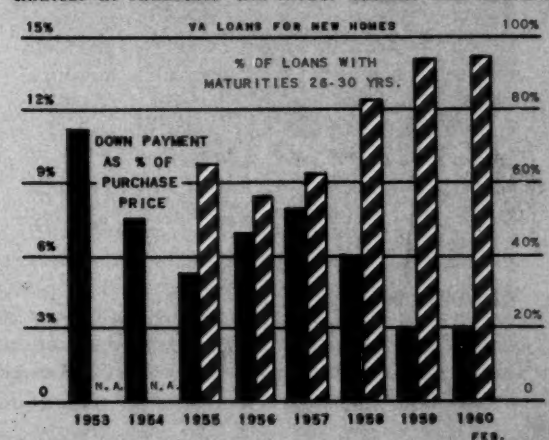
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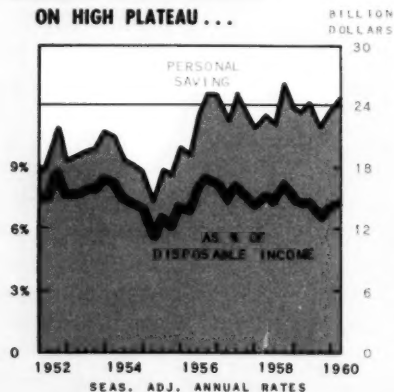
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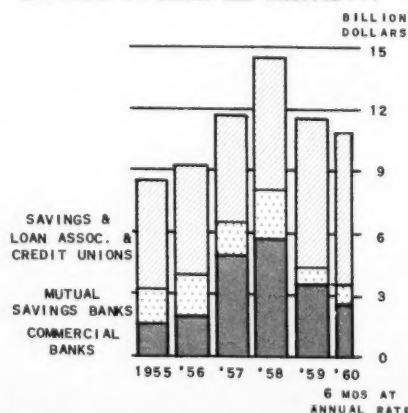
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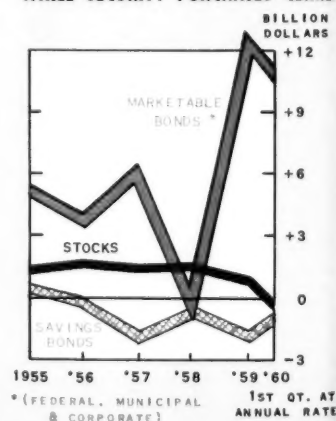


DATA: DEPARTMENT OF COMMERCE AND SECURITIES & EXCHANGE COMMISSION

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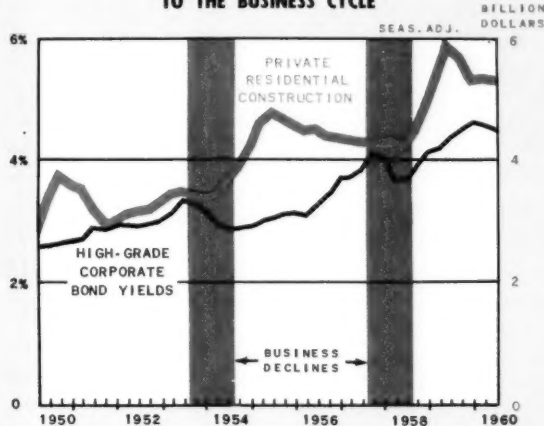
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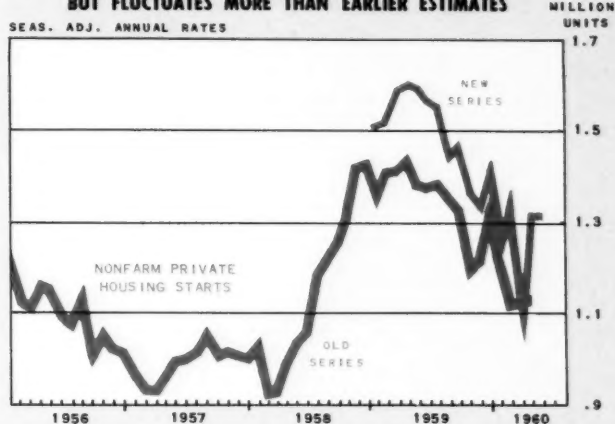
\* (FEDERAL, MUNICIPAL & CORPORATE)

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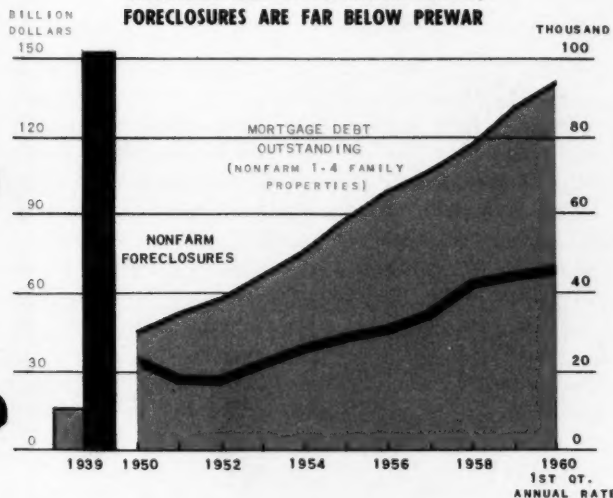
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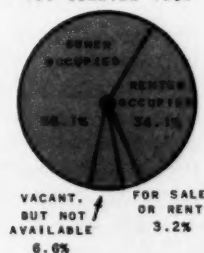
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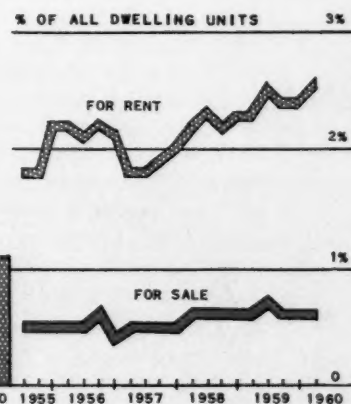
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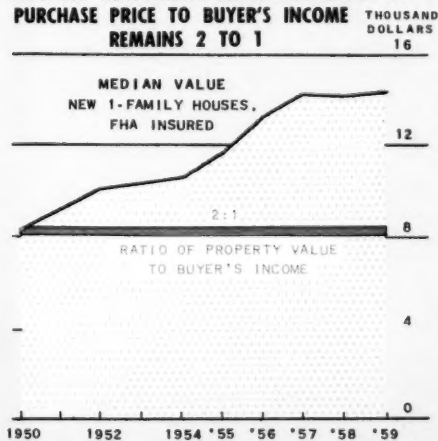
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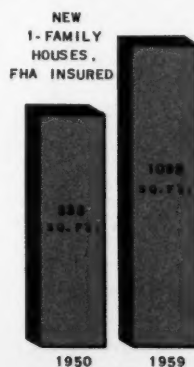
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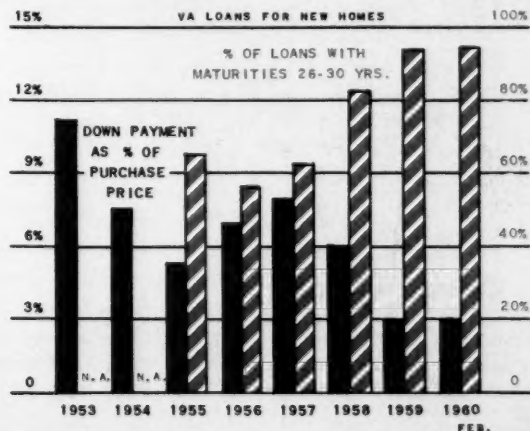
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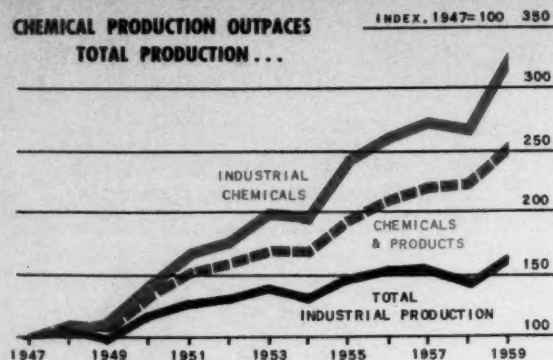
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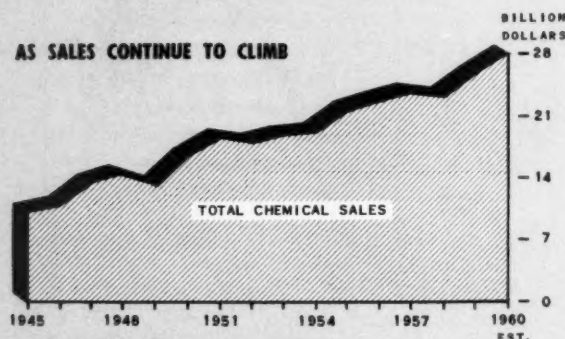
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## CHEMICAL PRODUCTION OUTPACES TOTAL PRODUCTION...



## AS SALES CONTINUE TO CLIMB



DATA: DEPARTMENT OF COMMERCE, FEDERAL RESERVE BOARD  
AND THE CHASE MANHATTAN BANK

The chemical industry is the dynamic giant of American industry. It is the 4th largest industry by assets, the 5th largest by sales. It is one of the fastest growing of all major industries, with new products developed by the hundreds every year. Since 1947, chemical and allied production has grown at an annual rate of 8%, compared to 4% for total industrial production. Sales, now at an annual rate of \$27 billion, have doubled since 1947.

What has made the chemical industry grow so fast? What part has research and development played in the industry's growth? What is the pattern for the future?

### Organics and New Products

Until World War I, the chemical industry produced mostly inorganic chemicals, concentrating on the basic salts, acids, and alkalis. Since that time, more complex research on organics has led to an almost entirely new industry, producing not only the organic chemicals themselves, but many intermediate and end products. Growth has come both from displacing older products (for example, man-made fibers for natural, synthetic for natural rubber, and synthetic detergents for soaps), and from creating new and enlarged markets by providing new, substantially better, and lower-priced products (for example, new pesticides, drugs, plastics, and high-concentration fertilizers).

### Classification

Today, thousands of companies produce an estimated 11,000 end chemicals. These chemicals are classified in several different ways:

## THE CHEMICAL

- **Organic** (which, like living matter, contain carbon), or **inorganic** (generally not containing carbon);
- **Fine** (relatively pure, low volume chemicals such as flavorings, medicinals), or **heavy** (the workhorses of industry such as sulfuric acid, caustic soda);
- By **raw material source** (petrochemicals, coal chemicals, wood chemicals), or by **end use** (rubber chemicals, agricultural chemicals, dyestuffs).

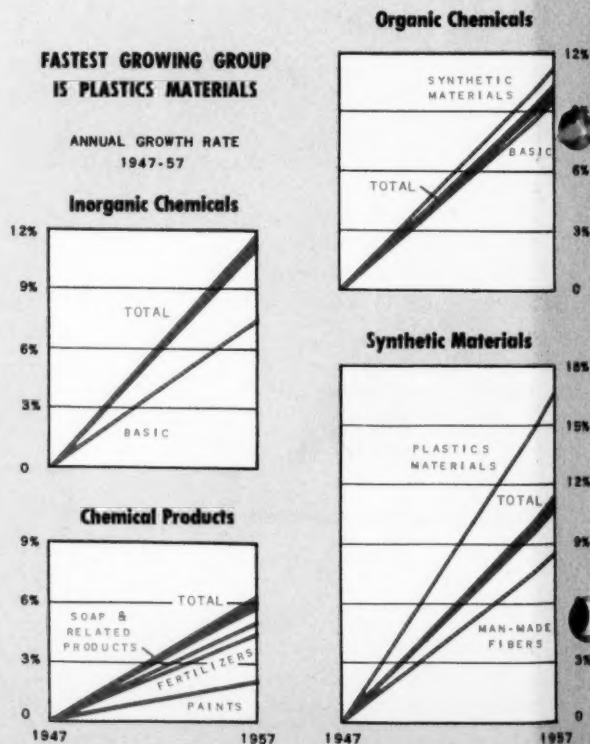
Industrial chemicals have become one of the most important raw material sources for American industry. They range from the basic chemicals like chlorine, sulfuric acid, and ethyl alcohol to complex dyes, bulk medicinals, and industrial gasses.

The chemical industry itself is a major consumer of its own materials. Beyond it, one can hardly find another industry which fails to use one chemical or another—iron and steel, paper, glass, rubber, petroleum, textiles and a long list of others among them. Since 1947, industrial chemical production has grown at a 10% annual rate.

### The Role of Research

What part has research played in the rapid growth of the chemical industry?

The chemical industry today is spending about \$700 million on research and development, about twice the level of 1953, and in line only behind the aircraft, electrical equipment, and machinery industries. Moreover,



DATA: FEDERAL RESERVE BOARD



# CHEMICAL INDUSTRY

on basic research (investigation without regard for specific product) it leads the field.

Research and development, and particularly basic research, has been the foundation of growth in the chemical industry. The outstanding achievement of this research has been the host of new products developed. It has been estimated that 50% of the products now sold were not commercially produced, and many were not known, in 1939. The following table tells the story of the most rapidly growing synthetic organic product groups, among which only the plastics and medicinals had any production at all in the late twenties, and this was small.

Production in millions of pounds	1938	1948	1958
Plastics .....	130	1,486	4,518
Synthetic rubber .....	5	1,173	2,202
Synthetic detergents .....	15	375	1,335
Synthetic fibers .....	0	66	489
Insecticides and other agricultural chemicals .....	8	97	539
Medicinals .....	13	43	101

But this table does not in itself tell the detailed story of growth of even these groups — the story of the new and different kinds of plastics, fibers, and medicinals produced every year. Nor does it tell the story of the search for new uses for old products, or of the widening fields of application of research, from shelter to electronics, rocket fuels, and space age metals.

In searching for different and distinct products, researchers are looking for the best plastic for every individual use, the most effective drug for every disease, the most effective weed killer for every weed. More and more chemical companies are finding it desirable to work with the users of plastics, fibers, and other chemical products to tailor a product to specific needs, and to work out the correct applications. An outstanding example of this is to be seen in the development of the new high strength plastic, du Pont Delrin, utilized for parts in many machines.

At the same time, researchers are continually looking for new applications for old products. An outstanding success story in this field has been the adoption of fluorinated hydrocarbons, previously used as refrigerants, for use in aerosol containers. Introduced after World War II, aerosols are now selling at an annual rate of more than half a billion units, with uses ranging from the morning shave to the control of pests.

Another area of research involves working with particular raw materials to develop new chemicals and products, as well as less costly means of producing older chemicals. Petroleum and natural gas have provided the raw materials for one of the fastest growing classes of chemicals, the petrochemicals. Important petrochemicals include ethylene (ethylene glycol, ethyl alcohol, polyethylene), propylene (polypropylene, a relatively new

and promising plastic and fiber chemical), butadiene (synthetic rubber) and ammonia.

Likewise, chemical researchers are working on economic uses for industrial wastes and other materials. One problem occupying them is the utilization of those parts of the tree now wasted in making paper or rayon.

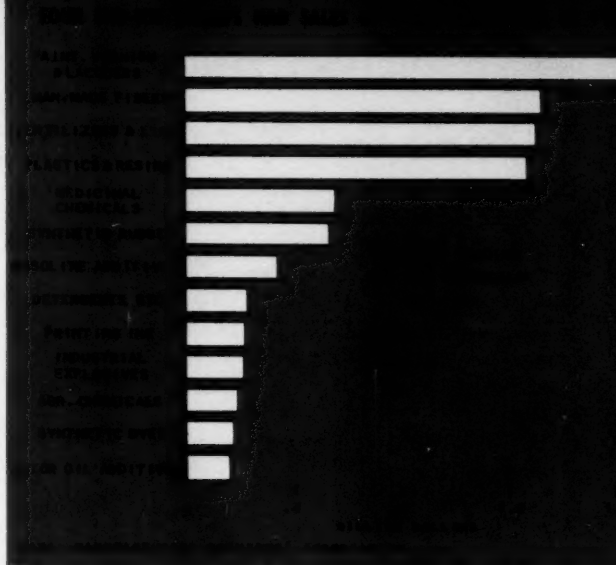
Last but not least, is the continuing and growing research into the properties and principles of matter. This research includes study of such processes as polymerization (the forming of chain molecules of fibers, rubbers and plastics) and photosynthesis (the process by which plants convert energy from the sun).

The new products of chemical research have opened up a vast new world to both business and consumers. How much better off are we because of these new products? This, of course, is impossible to measure. We do know, among other things, that man's life expectancy has been lengthened, that food can be grown more easily, and that there is available to us a diversity of materials and products that adds to the richness of life — to all of which chemical research has made a major contribution.

## The Future

The chemical industry has been characterized by strong competition, both among existing products and as between the new products that are discovered to replace old ones. Although this competition means a high degree of risk, it is a spur to a continued expansion in research effort and in new product development.

It is not possible to predict the exact new products or applications which will be developed in the future. But some of tomorrow's prospects include chemicals to control animal and plant heredity and behavior, synthetically produced foods, chemical fuel cells for electricity and plastic coatings to replace grease and oil. Whatever the particular developments may be, there is certain to be an ever expanding array of new products and applications available to both industry and consumers. Mankind will be the better for it.



# THE POPULATION OVER 65

## What Impact Will Its Increasing Size Have On The Economy?

There are now some 16 million people in the U.S. age 65 or over — one in every eleven persons. That's double the number twenty-five years ago when only one in seventeen was over 65. By 1970, these senior citizens are expected to number 20 million; by 1980, about 25 million.

Not only has the number of our older population increased, but there is also a growing realization that their place in the economy and in society is in a state of transformation.

Three factors are chiefly responsible for the new way of life of older people.

- First is the lengthening life span itself. A person of 65 today can expect, on the average, a further life span of 14 years — 1½ years longer than a person who was 65 in 1935. Moreover, older people are now relatively healthier than those of the same age twenty-five years ago.
- Then, there's the change in family patterns. The continued trend toward earlier marriage and child-bearing means that many parents are still in their late forties when their last child marries. Since nearly all young couples are now setting up their own homes, there are fewer three generation households (although many older widows later live with their children).
- Finally, there's the trend toward earlier retirement — voluntary or involuntary. Today, only one person out of five over 65 is working or looking for work as against one in three some twenty-five years ago. Higher incomes, Social Security, and the greater prevalence of pensions have enabled many to choose retirement. Compulsory age limits, as well as the rapid change in required skills and reticence about hiring older persons are behind the rise in involuntary retirement.

Thus, a new stage is being created in the life cycle which did not exist in the same form or degree a genera-

tion ago. Most older people have been relieved of the burden and regimentation of their major occupation — their job, or the maintenance of a family homestead.

This has left the elderly with considerable leisure and freedom. But it has reduced the flexibility of the transition from work to retirement to old age. At the same time, it has brought to the fore the tremendous variation in the circumstances and desires of older people.

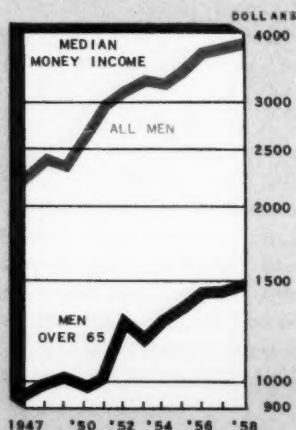
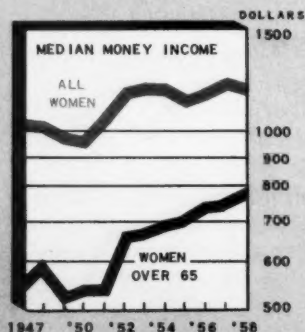
## Health and Capability

One variable, and perhaps the most basic one, is health. Older people average 16 days in bed for illness per year or twice the figure for all people. Likewise, twice as many have some chronic condition. But experts estimate that a person whose chronological age is 65 can be as much as 20 years older or younger than average in physiological age. Although one older person in seven has a "major activity limitation", and two in seven have some activity limit, the other four have none.

Thus, a Department of Labor study of job performance and age shows that older people who are employed have slightly fewer than the average 3.4 days absent per 100 workdays. Not only the 65-69 age group, but also those age 70-74, were at work more consistently than the average employee. So older people at work seem to be in much better health than the average older person.

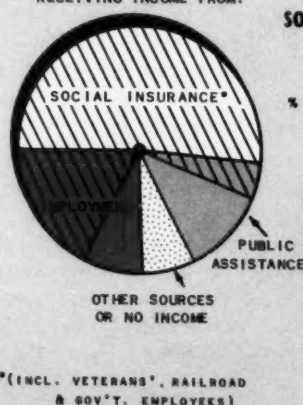
Even among those who are retired, however, there are many who are in comparatively good health. Just how good apparently depends in part on how the matter is broached to them. In one survey, 43% of the retired men reported themselves "able to work". In another, only 11% said they were "well enough to work". But generally about 25% of the respondents answered such a question in the affirmative, and 20% of all Social Security beneficiaries returned to full-time employment for at least six months after initial retirement.

**OLDER PEOPLE'S INCOME, THOUGH RISING A BIT FASTER, IS LOWER THAN AVERAGE**

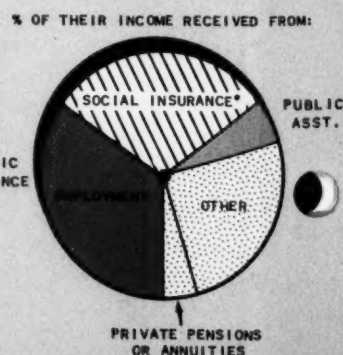


DATA: DEPARTMENT OF COMMERCE AND SOCIAL SECURITY ADMINISTRATION

**% OF ALL OLDER PEOPLE RECEIVING INCOME FROM:**



**THOUGH 2/3 GET SOME SOCIAL INSURANCE, MOST INCOME IS FROM PRIVATE SOURCES**





## Financial Circumstances

Another important distinction in the position of older people, of course, relates to income. Half of all families with heads over 65 had incomes of less than \$2,666 in 1958 versus a median for all families of \$5,087. Even after taking account of the smaller average size of the older families (2.6 members vs. 3.6 for all families), their income is still only three-quarters as large. Older individuals not living with their families had a median income of \$939 or 70% of the income of the average individual in such a position.

As is the case with health, however, there is a wide variation in financial circumstances. Retirement income, as expected, is lower than employment income. Nevertheless, one family in eight with head over 65 has an income over \$7,000. Moreover, the number with larger incomes is increasing every year.

In addition, the situation of older families with regard to debts and assets tends to raise their standard of living somewhat higher than income data would indicate.

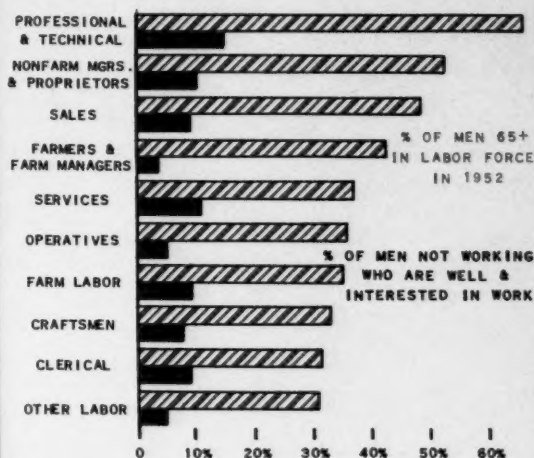
- Of all spending units with head over 65, 62% own their homes (vs. 54% for the average), and of these 83% are mortgage free. Also, older families have accumulated a stock of home furnishings and consumer durables. Relatively few spending units with older heads, therefore, have any debt. Thus, 29% of the spending units with head over 65 make no regular payments for housing, debt, insurance or retirement plans, and for another 27%, such regular payments are less than 10% of income.
- Although the proportion of older spending units holding financial assets is no greater than the average, those who do possess such assets (73%) have larger holdings. Over one-fourth of older spending units possessing liquid assets have over \$5,000 — more than double the proportion for all spending units. Available evidence indicates that the same conclusion holds for stock and other financial assets. So older people are able to spend all or most of their incomes.

## The Older Market

Estimates are, therefore, that older people constitute a consumer market of about \$30 billion — a market which will grow faster than the total consumer market in the 1960's. This segment of consumers has both a distinctive spending distribution among budget categories and special needs and desires which influence the type and design of the items within a category.

- As a group, older families budget more for food and medical care. About an average share of their income goes for clothing and home operation; less is devoted to home furnishings and equipment, recreation, and automotive products.
- It is within categories, however, that the careful choice of the older person is evident. In food, they prefer the high nutrition meats, vegetables and fruits

## THOSE OVER 65 PROVIDE A TRAINED LABOR POOL



DATA: STEINER & DORFMAN.  
"THE ECONOMIC STATUS OF THE AGED"

The older men who remain in the labor force, and those who have retired but want to return to work are most likely to belong to the skilled, high-demand occupations. And Labor Department studies show that employees over 65 equal younger employees in turnover, attendance, accuracy and consistency, and in many occupations are equal in productivity. These facts indicate the potential contribution of flexible retirement systems and efforts to provide suitable jobs for older people. In fact, if all the older people who are not now employed but who want employment were to find jobs, some 1-1½ million people would be added to the labor force.

as well as butter, cereal, coffee and cooking ingredients. Especially large proportions of their income are devoted to tools, home decorating materials, writing equipment, radios, TV, and phonographs.

## The Pattern for the Future

On balance, the circumstances of our older population have been improving. Even with the prospect for increasing numbers of older people, especially single women, this improvement seems destined to continue as more of those who are eligible for private pensions or Social Security reach the older brackets.

However, much could still be done to widen the choice available to our senior citizens. Opportunities for meaningful activity — either in employment or in retirement — could be multiplied to the advantage not only of older people themselves but also of business and our society. Products designed particularly for older people, and community attention to services which would increase their independence could be of great help. Such measures would offer greater opportunities and the promise of a fuller life to those past 65.



## Meat hits the spot

*... and commercial banks help bring it to the table*

When the clan gathers you can bet your boots that meat's at the head of the table.

And whether it's beef or lamb, pork or poultry, commercial banks have a hand in serving it up.

Bank loans help ranchers and farmers fatten their herds and flocks and get them to market. Bank loans help packers pur-

chase, process and distribute meat to retail outlets all over the country. And frequently it's a bank loan that helps your local market stock and display fresh meat to your taste.

The Chase Manhattan Bank, leading lender and financial counsellor to business and industry, is proud of the part the nation's

commercial banks play in bringing meat and meat products to the American table.

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